



**MINUTES FROM THE INVESTMENT SUBCOMMITTEE  
OF THE CASH MANAGEMENT POLICY BOARD  
May 6, 2020**

A meeting of the Investment Subcommittee (the “Subcommittee”) of the Cash Management Policy Board (the “Board”) was held on May 6, 2020 at 10:00 a.m. Pursuant to paragraph 5 of Governor Carney’s Emergency Order dated March 12, 2020 the meeting was held telephonically, without a physical location.

Subcommittee Members Represented or in Attendance:

Mr. Dave Marvin, Subcommittee Chair  
Mr. Mike Karia, Subcommittee Co-Chair  
Mr. John Flynn, Board Chair  
The Honorable Colleen Davis, State Treasurer  
Mr. Rick Geisenberger, Secretary, Department of Finance

Subcommittee Members Not Represented or in Attendance:

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice  
Ms. Liza Druck Davis, Deputy State Treasurer, Office of the State Treasurer (“OST”)  
Mr. Daniel Madrid, Chief Operating Officer, OST  
Ms. Fiah Kwesseu, Director of Operations & Fund Management, OST  
Mr. Brennon Fountain, Controller II, OST  
Ms. Dawn Davis, Assistant Debt and Cash Manager, OST  
Mr. Stephen McVay, Assistant Debt and Cash Manager, OST  
Mr. Jordan Seemans, Director of Legislative Affairs, Office of the Governor  
Mr. Sean McNeeley, Director of Bond Finance, Department of Finance  
Mr. John Krimmel, Partner, NEPC  
Ms. Jennifer Appel, Senior Research Analyst, NEPC  
Mr. Kevin Leonard, NEPC

**CALLED TO ORDER**

The Deputy Treasurer called the meeting to order at 10:02 a.m.

**APPROVAL OF THE MINUTES**

**A MOTION was made by Mr. Mike Karia and seconded by Mr. David Marvin to approve minutes from the special Subcommittee meeting on April 15, 2020.**

**MOTION ADOPTED UNANIMOUSLY**

## **ENDOWMENT MANAGER RFP DISCUSSION AND VOTE**

Mr. Krimmel provided the status of the endowment manager RFP and selection. The evaluation committee responsible for reviewing the proposals consisted of OST staff and two Department of Natural Resources employees. The proposals were received and scored in early April. Three out of the eleven firms were invited to finalist interviews on April 29, 2020. Two of the three incumbents, JP Morgan and Morgan Stanley, bid on the project but did not make the top five based on scoring. The finalists were Vanguard, PFM and SEI (incumbent). The evaluation committee suggested a switch to two (rather than three) endowment managers and recommended that the Board select Vanguard and SEI. The assets will be split 50/50 between Vanguard and SEI.

**A MOTION was made by Mr. Karia and seconded by Mr. Flynn to recommend that the Board select Vanguard and SEI as the new endowment managers.**

**MOTION ADOPTED UNANIMOUSLY**

## **RECENT DOWNGRADES DISCUSSION AND VOTE**

Mr. Krimmel advised the Subcommittee on the status of the downgraded securities in Lazard's portfolio. The securities were downgraded in mid-March. Lazard, however, did not notify OST about the downgrade for six days and failed to sell the securities when and as required by the Guidelines. During the special Subcommittee meeting on April 15, 2020, the Subcommittee discussed the situation and recommended that Lazard be required to sell the securities by close of business on April 17, 2020. Lazard sold the securities on April 16, 2020 at a realized loss of \$2.7 million.

The Subcommittee discussed options for addressing the situation with Lazard. Options included (a) issuing a letter to Lazard detailing the State's concerns and (b) terminating the contract with Lazard.

**A MOTION was made by Mr. Flynn and seconded by Mr. Marvin recommending that OST issue a letter to Lazard expressing concerns related to the downgrade.**

**MOTION ADOPTED UNANIMOUSLY**

## **INVESTMENT ARCHITECTURE AMENDMENT DISCUSSION AND VOTE**

The Deputy Treasurer presented the revised architecture per the Subcommittee's request after the discussions at the special meeting on April 15, 2020. The revisions relate primarily to three aspects of the investment architecture – the management of the liquidity accounts, the management of the reserve accounts and the recognition and placement of restricted funds within the architecture. The first revision changes the liquidity-versus-reserve allocation from dollar amounts to percentages (25% liquidity and 75% reserve) and memorialized a 5% buffer (when the liquidity balances exceed 30% of the total portfolio excess cash will be transferred to the reserve accounts). The second revision requires that all draws and refunding of the liquidity reserve accounts be made on a pro-rata basis. The third revision places the Budget Reserve Account and Budget Stabilization Fund within the investment architecture. The Budget Reserve Account will reside in Tier 1 with a maturity target of one to three years. The Budget Stabilization Fund will reside in Tier 2 with a maturity target of one to five years.

There was a discussion about how to address near term liquidity issues related to the coronavirus pandemic, including temporarily increasing the liquidity allocations and buffer and temporarily placing the Budget Stabilization Fund within the liquidity accounts.

**A MOTION was made by Mr. Flynn and seconded by Mr. Karia to recommend that the Board approve the proposed changes to the Investment Architecture.**

**MOTION ADOPTED UNANIMOUSLY**

**A MOTION was made by Treasurer Davis and seconded by Mr. Flynn to recommend that the Board temporarily increase the maximum liquidity balance by 5% through December 31, 2020 and temporarily move the Budget Stabilization Fund from the Tier 2 Reserve Account to the Liquidity Accounts.**

**MOTION ADOPTED UNANIMOUSLY**

### **GUIDELINES FOR CARES ACT FUNDS DISCUSSION AND VOTE**

Mr. Krimmel explained the current guidance relating to the timing and disbursement of the Coronavirus Aid, Relief and Economic Securities (“CARES”) Act funds. The State received \$927 million for COVID related expenditures, and the funds were split between two liquidity managers, Wilmington Trust and PFM. The CARES Act funds must be expended or encumbered by December 31, 2020. Any funds not allocated must be returned to the federal government.

The Deputy Treasurer reported that the CARES Act funds are in two separate accounts at Northern Trust, and that performance will be calculated separately.

Mr. Krimmel offered several investment options to effectively and efficiently manage the CARES Act funds. Options included the use of existing liquidity guidelines and leaving the funds in money market mutual funds. There was discussion around possible uses of the CARES Act funds.

**A MOTION was made by Mr. Flynn and seconded by Mr. Karia to recommend that the Board grant OST authority to direct Wilmington Trust and PFM to invest CARES Act funds exclusively in Money Market Mutual Funds.**

**MOTION ADOPTED UNANIMOUSLY**

### **INVESTMENT ADVISOR RFP UPDATE**

[Mr. John Kimmel and Ms. Jennifer Appel (NEPC) left the call for the discussion of the investment advisor RFP.]

The Deputy Treasurer led the update on the investment advisor RFP. The RFP is currently open and will close on May 15, 2020. A few questions have been received and answered but there is no indication of the number of respondents. Evaluation interviews are scheduled for late June. The evaluation team will have a recommendation ready for the full Board meeting in August. The Subcommittee was invited to participate on the evaluation committee.

### **EXECUTIVE SESSION**

No executive session was held.

### **PUBLIC COMMENTS**

No members of the public present for comment.

**NEXT MEETING**

The next full Board meeting is scheduled for May 27, 2020.

The next Investment Subcommittee meeting is scheduled for August 5, 2020.

**ADJOURNMENT**

**A MOTION was made by Mr. Marvin and seconded by Mr. Karia to adjourn the meeting of the Subcommittee at 11:30 a.m.**

**MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

---

David Marvin  
Chair for the Investment Subcommittee

---

Mike Karia  
Co-Chair for the Investment Subcommittee